Q1 2021

Ibec Quarterly Economic Outlook

A shot in the arm

Ibec
For Irish Business

The opening months of 2021 have been amongst the most difficult for the Irish economy and society since the onset of COVID-19. Over 650,000 people remain unemployed and a further 310,000 are reliant on wage subsidies, the current restrictions mean that most will remain there well into the second quarter. But we can begin to look forward to the second half of the year with hope. 2021 will not see a return to normal trading in all sectors but there is potential for life and commerce to take a more normal rhythm. Disregarding the noise about vaccine supply, the signal is clear – with efficient rollout most adults should have their first dose by the end of June. From there, light will begin to creep in. With the correct Government messaging and continued fiscal support, confidence will begin to return to large sections of households and business. This will help promote continued export growth, reduce the record pace of household saving, bring down unemployment and give the economic recovery a much needed shot in the arm.

Key indicators

Annual % change	2020	2021	2022
Consumer spending	-9.0	9.0	5.5
Investment	-32.3	5.6	13.2
Exports	6.2	5.0	4.7
Imports	-11.3	7.7	6.8
GDP	3.4	3.1	4.3
Inflation	-0.3	0.8	1.5
Unemployment (annual average %)	16.7	15.6	9.3

Economic forecasts

Outlook overview

Following our annus horribilis in 2020, the first half of 2021 again looks like a difficult prospect for large parts of the Irish economy. At the time of writing, close to half a million people are on the Pandemic Unemployment Payment (PUP) and large parts of the domestic economy remain closed. However, the second half of 2021 still carries hope for a significant number of sectors. An efficient vaccine rollout might see the start of our recovery in the second half of 2021. 2021 will not see a return to normal trading in all sectors due to ongoing social distancing and public health requirements but there is potential for life and commerce to take a more normal rhythm. To achieve this outcome, continued and enhanced support from Government for the sectors which will not see a return to normal trading will be needed through the year. The Brexit Adjustment Fund will also need to be used judiciously to boost our long-term ability to sell abroad. And finally, vaccine rollout will need to run smoothly. With a strong second half of 2021 in place, growth may then take off in 2022.

Export trends

The recent National Accounts figures for the full year of 2020 captured the K-shaped nature of the Irish economy during COVID-19. Export growth of 6.2% shows the strength of the underlying business model, despite testing international conditions. Whilst overall exports from EU countries fell by 8.8% in 2020, Ireland was one of two countries to continue to grow its export base. On the other side of the divide countries reliant on aerospace manufacturing and tourism suffered significantly during the year. France, Cyprus, Portugal, Spain, Greece and Croatia all experienced reductions in export values of over 15% in 2020. For 2021, there are reasons to expect that the Irish export model will continue to prove robust despite the competitiveness challenges posed by the end of the Brexit transition. Firstly, we will see renewed demand globally in the coming year as COVID restrictions begin to lift. Secondly, the sectors in which Ireland has seen growing demand – BioPharma, Medtech, ICT, and Food - are unlikely to see significant reverses in fortune in 2021. And finally, the recent suspension of 25% trade tariffs on some key dairy and drink products by the Biden administration gives hope for a more productive trading relationship with a fast-growing US economy over the coming years.

Business investment

Investment in the Irish economy, excluding intellectual property and aircraft for leasing, fell by 8.8% in 2020. This is slightly worse than the European average of 6.5% and broadly reflects the more sustained lockdowns faced by the construction industry in Ireland relative to the rest of Europe. Construction output in Ireland fell by over 23% in Q2 and Q3. This compares to a fall of only 7% in the EU. However, pent up demand did mean Ireland experienced a more rapid rebound in Q4 when annual output was 2.7% up on 2019. It is our continued view that the scarring effect on business investment will not be as deep as it proved during the last recession. Total SME bank debt by December 2020 was a third of its 2010 level, household incomes are holding up relatively well and unlike during the austerity period, the Government remains committed to following through on its capital investment plans. Whilst other forms of unrealised arrears, such as rent and tax payments, will become an issue as 2021 progresses and insolvencies will rise as the economy normalises – sensible approaches from creditors, including the State, will allow for a domestic investment recovery in line with economic fundamentals.

Figure 1: Consumer spending (€ million)

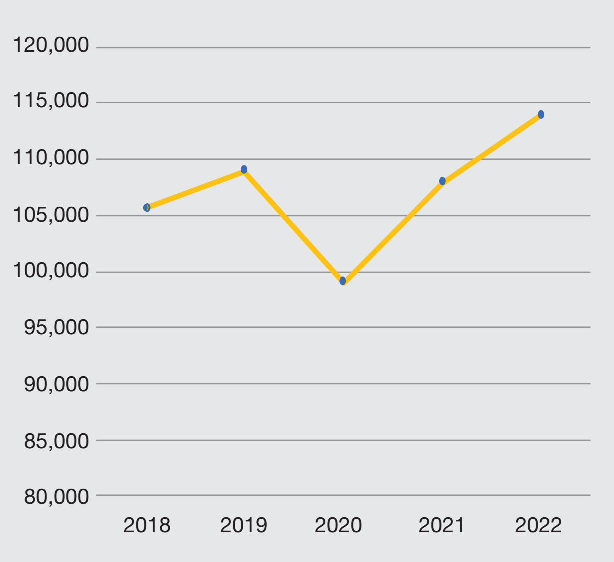


Figure 2: Export growth, %

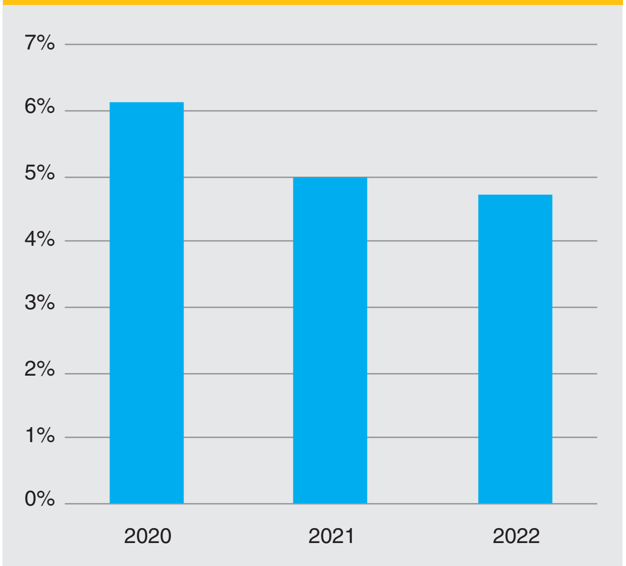
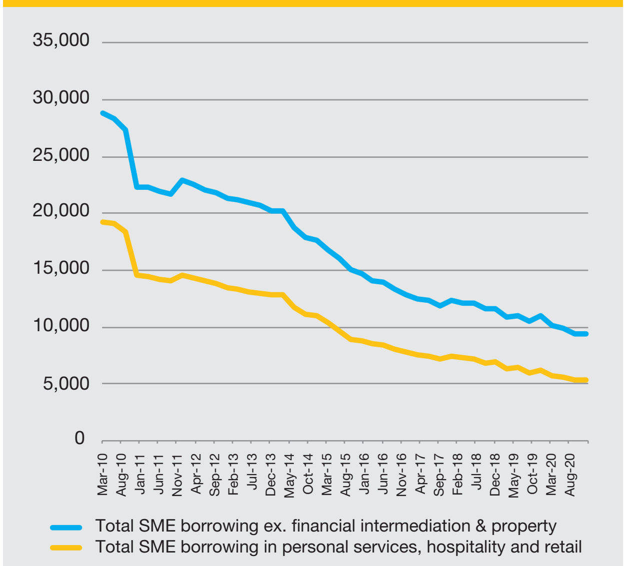


Figure 3: SME bank debt, 2010 to 2020 (€ million)



SME borrowing

SME borrowing, excluding property and finance, fell by 19.4% in 2020. As a result, gross new lending to SMEs was back to levels last seen in 2015. Focused only on those sectors worst impacted by lockdowns - retail, hospitality and personal services – lending fell by 39.2%. That brings new borrowing in those sectors down to levels last seen in the period between 2010 and 2013. On the other side of the balance sheet, the rising caution and cash conservation amongst companies could be seen in the fact that total deposits from Irish companies of all sizes rose by 18% in 2020. This is a sharp increase from the consistent average growth rate of 8% annually in the years since 2013. In the worst COVID impacted sectors deposits grew by over 20%, up from a 7% annual average in the period since 2012. This leaves business deposits twice as high as they were during the same period in 2010. Together these trends point to significant caution across the business sector. As the economy returns to normal there is, as yet no guarantee that these levels of precaution will fade quickly or completely.

Consumer spending

The impact of COVID-19 and associated health restrictions was clear in the fall of 9% in consumer spending in 2020. In nominal terms, Irish households spent €9.1 billion less in 2020 than they did in 2019. Whilst the fall is significant, the shift in channels and sectoral makeup of spending is as significant. Data from several sources shows a shift from cash to POS or online and a growth in displaced spending from 'closed' sectors to open ones (eating out to grocery retail for example). As we get further into vaccination, these trends should start to rebound somewhat. For example, a lack of spending opportunities meant that in the twelve months to the end of January 2021 households saved over €15 billion in net terms, a 216% increase on the same period until January 2020. Were the rate of saving, as a proportion of after-tax income, to revert to its 2019 level it would release in the region of €8 billion for consumer spending and investment over 12 months. This is before any of the increased saving from 2020 is consumed or invested. For this reason, we expect consumer spending to rise by 9% in 2021 and 5.5% in 2022.

Global FDI flows

Data from the United Nations shows that Greenfield FDI project announcements fell by 35% worldwide and by 15% into the EU in 2020. Ireland outperformed this metric with a 5% increase in employment in IDA supported firms in 2020. Ireland's outperformance is driven in part by the strength of its sectoral mix. Ireland has limited reliance on the quickest declining sectors in terms of new investment announcements. Fossil fuels, automotive, and other transport manufacturing accounted for $120 billion of the total global fall in FDI of $290 billion in 2020. On the other hand, ICT and BioPharma were amongst the sectors which performed the best throughout the pandemic. We expect that the project pipeline will continue to outperform international benchmarks in 2021 as the global economy recovers and key sectors continue to see improved performance.

Figure 4: Cash deposits of the worst Covid-19 impacted sectors (€ million)

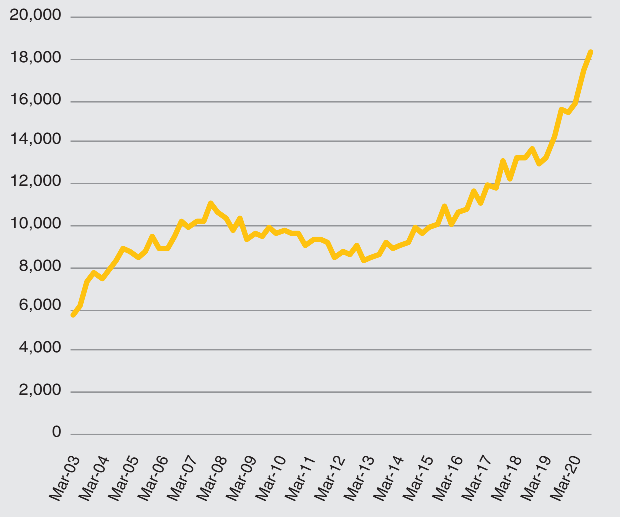


Figure 5: E-commerce, % of all card usage

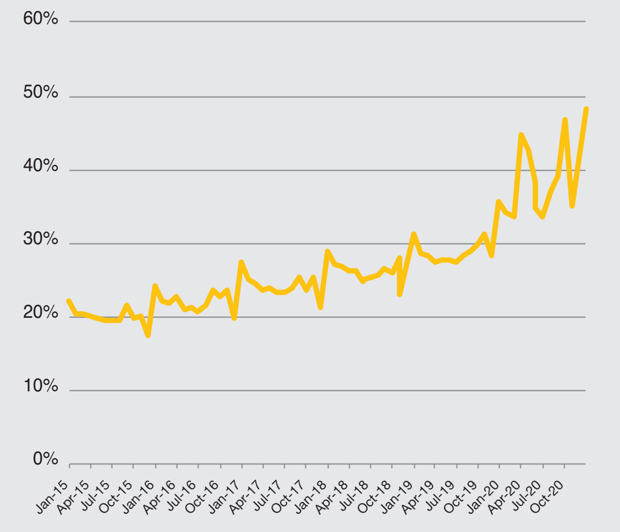
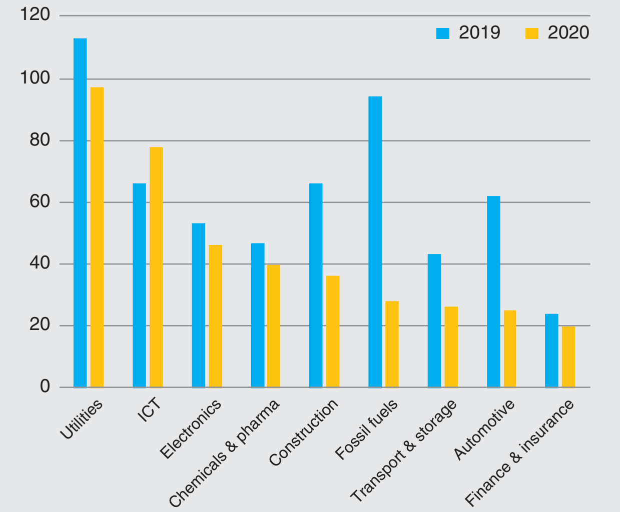


Figure 6: Global Greenfield FDI flows, Top 10 sectors (€ billion)



Labour market

Employment

The first quarter of the year has seen worse than expected impacts in the labour market, in the wake of the reintroduction of strict lockdown measures in late December. Unemployment numbers rose rapidly from the last week in December, with numbers on the PUP increasing by 145,824 people or 30% between Christmas and peak unemployment in late February. In total, this meant 608,700 people were unemployed and on either the PUP or Live Register at the time, with an unemployment rate of 24.8%. This has levelled off in recent weeks, with numbers on the PUP declining marginally by mid-March. Increases in unemployment due to the 3rd lockdown were higher than the rise seen in the October lockdown due to the closure of the construction sector. Large numbers would likely come off the PUP relatively quickly if construction is reopened over the coming weeks, as was the case last summer. Despite the increase in January, numbers unemployed during the 2nd and 3rd lockdowns have remained below the record levels seen last April, when over 700,000 people were unemployed.

Vacancies and jobs growth

Despite a difficult year in terms of employment, there are pockets of the labour market still seeing jobs growth. In a comparison of employment by sector between Q4 2019 and Q4 2020, the ICT and Finance sectors saw increased employment, with an additional 11,800 and 9,400 people employed respectively in the sectors. This is an increase of 9.2% and 8.2% respectively, reflecting strong jobs growth in two sectors well placed for remote working. The industrial sector also saw employment growth of just over 11,000 , with continued growth in areas considered 'essential manufacturing'. The largest drop in employment was in the Accommodation and Food sector, which had 46,000 fewer people working in the sector permanently by the end of 2020. This, however, does not include workers on the PUP who expect to return to work in their current role and ultimate total losses are likely to be far higher. While the return of construction employment will see PUP number falls significantly, our expectation is that a return to normal trading and therefore employment will be very much in the second half of 2021 and into 2022 for other closed sectors. As such, we expect employment to remain about 100,000 below its pre-COVID peak by the end of 2022.

Figure 7: Numbers unemployed, COVID-19 adjusted estimates

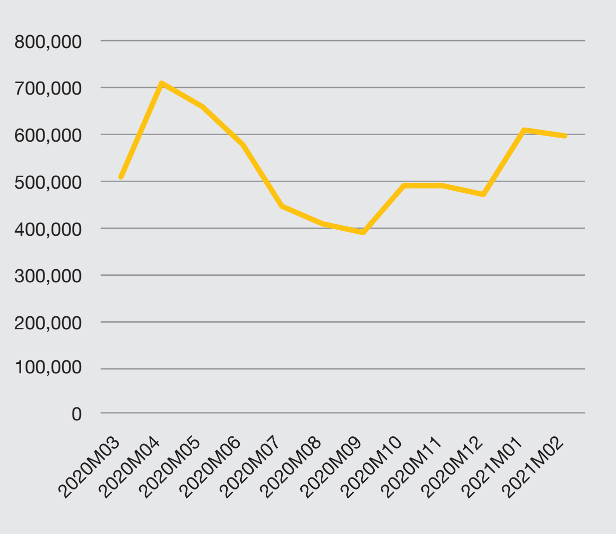


Figure 8: Percentage change in employment by sector, Q4 2020 v Q4 2019

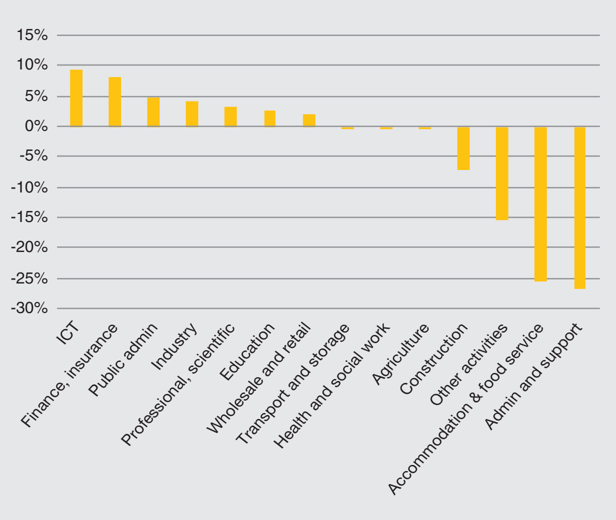


Table 1: Employment, 000s annual average (including PUP as unemployed)

	2020	2021 (f)	2022 (f)
Agriculture	**100**	**98**	**96**
Industry & Construction	**397**	**394**	**425**
Services	**1,567**	**1,600**	**1,727**
Total	**2,064**	**2,092**	**2,248**
Employment growth (%)	**-10.9%**	**1.3%**	**7.5%**
Unemployment rate (annual average %)	**16.7%**	**15.6%**	**9.3%**

Source: Ibec forecasts

COVID-19 distributional impact

Lost weeks

The distributional impact of COVID-19 across sectors can usefully be measured in the number of potential work weeks 'lost' to each sector during 2020. We estimate 'lost' weeks, simply, as the total number of weeks spent by workers in a sector on the PUP during the year. In nominal terms, the Accommodation and Food sector was worst hit by the pandemic with almost 3.4 million potential work weeks spent on the PUP. This accounts for 31% of the total of just over 10.8 million potential work weeks spent on the PUP during the year. The second hardest hit was the Wholesale and Retail sector with almost 1.8 million weeks lost on the PUP. What is also clear is that those sectors which had lower margins and lower earnings were also those most likely to have spent significant time closed in 2020.

Lost earnings

These lost weeks can be translated into an estimate of lost potential earnings by multiplying by the average weekly pay in the sector in 2019. By this measure, people on the PUP lost in total around €7 billion in potential earnings in 2020 due to the pandemic. As a proportion of their 2019 total earnings the worst-hit sectors were Accommodation and Food (37%), Arts, Entertainment and Recreation (33%), Administration and Support (18%) and Construction (16%), The average lost potential earnings to those on the PUP, across all sectors, averaged around 10% of total 2019 private sector workers' earnings in the economy. This does not include losses in terms of profits to business owners or to those who did not have their incomes fully replaced on the Wage Subsidy Scheme (WSS). At the time of writing, these losses have mounted with closures expected to be maintained through the end of Q1 2021.

Incomes

Data from Revenue show the significant impact Government supports had on supporting household incomes throughout 2020. As a result of over €4.2 billion in wage subsidy payments, €5 billion in PUP payments and growing wages in some of the open sectors, earned income in the private sector did not fall at all in 2020. Total net monthly private sector pay in January and February averaged €4.6 billion. This then fell to €3.8 billion in the March to August period before recovering in the September to December period to its pre-pandemic levels. State income supports, through the PUP and WSS, averaged €1 billion per month in the March to August period and a further €700 million per month in the September to December period. These supports amounted to 15% of total private sector income in 2020, rising to 29% in the April to June period and falling as low as 10% to 15% between September and December. Also, Ibec surveys show that around half of all companies gave pay increases last year. In total, this means that, remarkably, the income of Irish private-sector workers remained steady through the whole year in aggregate.

Figure 9: Potential employment weeks lost, million

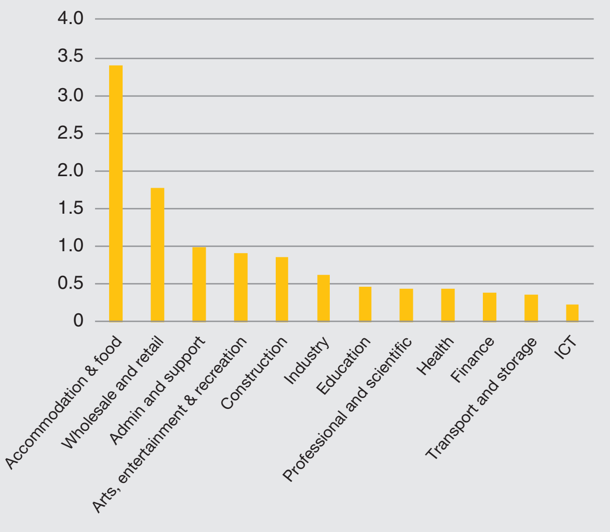


Figure 10: Lost potential earnings, as a % of 2019 earnings

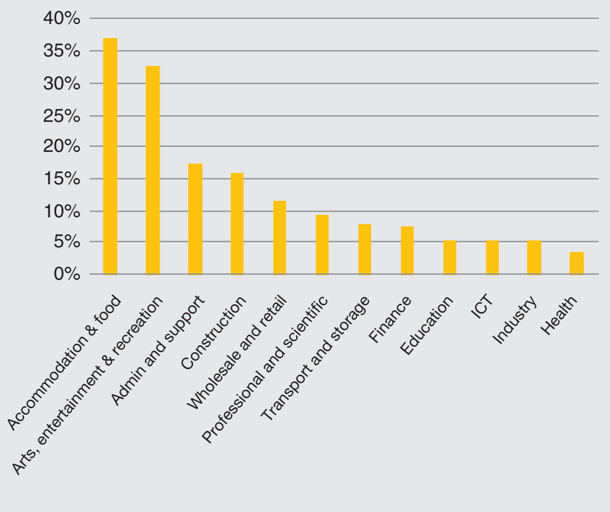
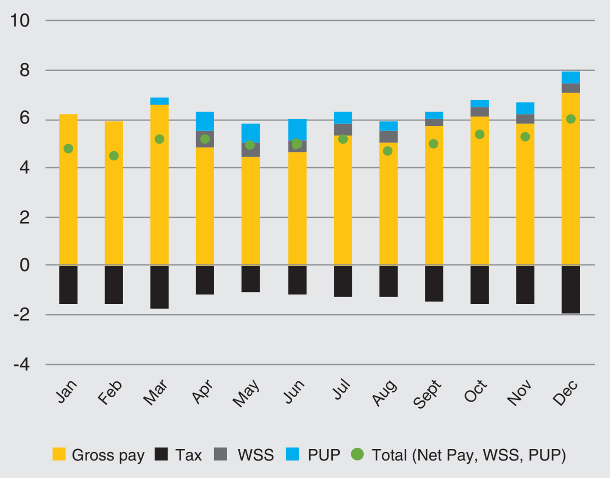


Figure 11: Private sector worker incomes in 2020, (€ billion)



Fiscal trends

Government deficit

Since the onset of the COVID-19 crisis, the Government had a clearly stated objective of keeping the national deficit in the 'middle of the pack' relative to the deficit of other EU countries. The motivation for this was to ensure that any widening in the spread of bond yields between EU countries did not target Ireland as an outlier country. In 2019 Ireland had a Budget surplus of 0.5% of GDP the 9th highest in the EU27. Even though Ireland's fiscal position deteriorated to a deficit of 6.8% of GDP in 2020, our deficit is still the 10th lowest amongst EU countries. Based on existing Budget plans, set out by the EU Member States in November, Ireland's deficit of 5.8% would lead us to 15th place in the EU in 2021 and back up to 7th in 2022. However, the lower rank in 2021 may be down as much to overly optimistic assumptions by other Member States rather than likely outcomes. More recent forecasts by the OECD expect Ireland to be placed 10th in the EU in 2021 and 11th in 2022. Given these figures and the relative path of the virus across Europe, it appears the Government strategy is working.

Government debt

When it comes to Ireland's debt sustainability, recent IMF medium-term forecasts suggest that our debt as a proportion of national income, whilst in the top half of advanced economies, will be toward the middle of the pack in 2021. This is based on improved growth dynamics in Ireland and rising debts across the developed world following the COVID-19 crisis. In the group of 22 advanced economies in the chart, the median debt to GDP ratio (excluding Ireland) rose from 78% of GDP in 2019 to 96% of GDP in 2020. This is expected to remain elevated at 94% of GDP by 2025. Ireland's stronger potential growth trajectory is expected to see our debt as a proportion of national income fall by the most significant amount of any of this group of countries by 2025. This would move us from 15 percentage points above the median debt ratio in 2019 to 3 points below the median by 2025.

Interest rate risks

There has been some speculation in recent times about the impact of rising bond prices on Ireland's debt sustainability. In this context, it is worth noting that currently, the average weighted rate of interest on our national debt is 1.6%. This is down from rates of over 8% in the early 1990s and 5.1% in 2008 and has halved in the past five years. This interest rate is well below any reasonable assumption of the nominal growth potential of the Irish economy in the medium term – even taking account of COVID-19 scarring. As such our debt to GDP ratio should continue to fall over the coming years. However, it is also the case that bond yields are likely to increase post-COVID. Firstly, there may be an increase in inflation as growth recovers. Secondly, it is also likely that the ECB will begin to unwind parts of its asset purchase programme in 2022 and 2023. However, we remain well-insulated from short-term shifts because the average maturity on Irish debt is long (10 years) by international standards. As such, any increase in short to medium term bond yields would have to be significant and sustained to increase the average weighted rate of interest on our debt or to impact materially on the share of tax revenue dedicated to our interest bill. In the long-term, Ireland's above-average potential growth rate is also the most significant controllable factor for fiscal sustainability.

Figure 12: Ireland deficit ranking

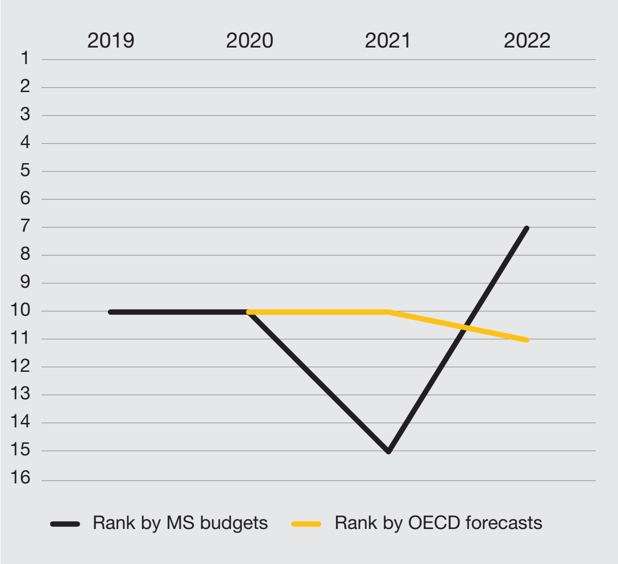


Figure 13: IMF estimates for Government debt in advanced economies (% of GDP)

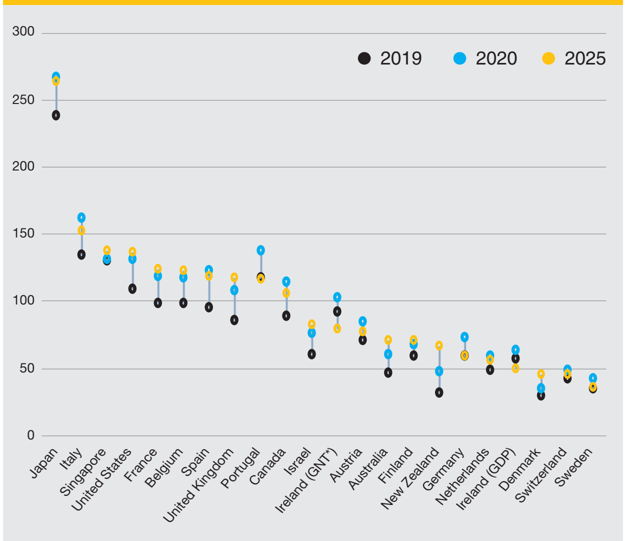
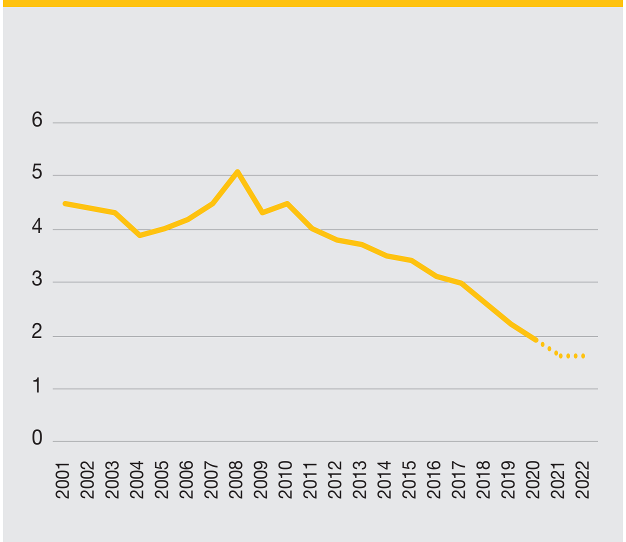


Figure 14: Average interest rate on Irish national debt, %



International tax update

Global shifts

2021 may yet be a significant year for the tax element ofour business model. In late February the new US Treasury Secretary, Janet Yellen, strongly backed the OECD corporate tax reform process at a meeting of the G20 Finance Ministers. In doing so she removed some of the major roadblocks which the Trump administration had left in the path of agreement. In a meeting with European Commissioner for Economy Paolo Gentiloni a few days later, she again committed to “re-engage actively in the ongoing OECD discussions on international taxation to forge a strong international accord”. This would include not just changes in ‘where’ tax is paid but also a ‘robust’ minimum global effective tax rate.

The change in tone under the new US administration was well signalled and is not the last obstacle to an agreement on a jurisdiction-by-jurisdiction global minimum tax at the OECD. There are still political and legal barriers, not least how to treat the US GILTI regime, legal concerns in Europe and getting any subsequent agreement passed by the US Congress. But there is no doubt that the enthusiasm from the Biden administration is very meaningful for the prospects of an agreement, on both a minimum tax and a formula by which a greater share of corporate tax is paid in consumer jurisdictions, by July.

Ibec will continue to try and influence the key outcome for Ireland – the rate of the tax - through our engagement at the OECD through our role as the Irish representative at the Business and Industry Advisory Group to the OECD (BIAC). This includes our CEO, Danny McCoy, providing the intervention addressing international taxation on behalf of BIAC at a meeting with the OECD leadership in recent weeks.

The choice between a minimum effective tax rate which ‘bites’ in each jurisdiction, rather than a global blended one (like the US GILTI), has already been settled at the OECD. It is also clear that the current discussions between the US, EU and other large countries at the OECD are now very much focused on a minimum effective corporate tax which is ‘not less than’ 12.5%.

US changes

The trend on corporate tax rates globally, which had been falling in recent years, is now very much reversing. The Biden administration is attempting to introduce a corporate tax increase domestically in both their headline rate (from 21% to 28%) and GILTI rate (from 10.5% to 21%). The GILTI, a tax on earnings that exceed a routine return (10%) on foreign assets, had already been slated to increase to an effective rate of 16.4% in 2025. However, of most consequence to Ireland may be that the new Biden administration plans to impose GILTI on earnings from each country individually, rather than on a globally blended basis. This would mean any routine return on assets in Ireland above 10% could be taxed in the US at 21% (minus credits for foreign tax paid). It is also notable that the Biden administration plans to introduce a 15% domestic minimum tax on US corporations (net of losses and foreign tax paid) with a net global income of €100 million or more. These proposals are a material signal of where the new US administration may stand on the rate of any OECD minimum tax agreement.

UK and EU changes
The British Chancellor of the Exchequer has now clearly abandoned the 'Osbourne plan' to decrease the British corporate tax rate to 15%. Rather he will do a u-turn and increase it back up to 25% by April 2023. It is also worth noting that about one-third of the cost of the Osbourne cuts in the UK tax rate was paid for by base-broadening – most notably by slashing investment allowances. As a result, the 25% rate in 2023 will be on a much broader base than it had been the last time the rate was that high in 2012. Finally, whilst the new 'super deduction' may bring some investment forward, the short time frame of the policy and subsequent announcement of a six-point increase in the UK corporate tax rate may limit its effectiveness.

The EU, for its part, has recently made it clear that its proposal for a 'digital levy' on all digital companies (including many SMEs) would be introduced on top of any agreement at the OECD. Were the OECD process to fail, the EU would also introduce a proposal for an EU minimum tax. Together these changes will move effective tax rates up globally.

Implications for Ireland
Where this all lands will have obvious implications for our business model. Even at a 12.5% rate, the OECD minimum tax could impact significantly on how we support innovation, investment and R&D through tax incentives and put more onus on increased direct grant support. A rate above 12.5% would be a significant departure both materially and for our global brand. Any rate higher than 12.5% would close the competitiveness gap to other EU competitors with effective tax rates close to or below 20%, such as Netherlands, Belgium, Sweden, Denmark, Switzerland, and Finland. However, rising global rates in the US and UK still keep us attractive relative to those competitors.

From a fiscal perspective, the Government has estimated a change in where tax would be paid would cost the state between €800 million and €2 billion per annum. Far more significant for fiscal sustainability would be any loss of long-term competitiveness resulting in lower growth rates and a falling tax take. This is particularly the case given corporate tax, at 14% of the total tax take, is now far north of twice the European average. From an Ibec perspective, we have been clear for several years that we will need to meet this competitiveness challenge by investing in other growth levers such as education, research and development and critical infrastructure.

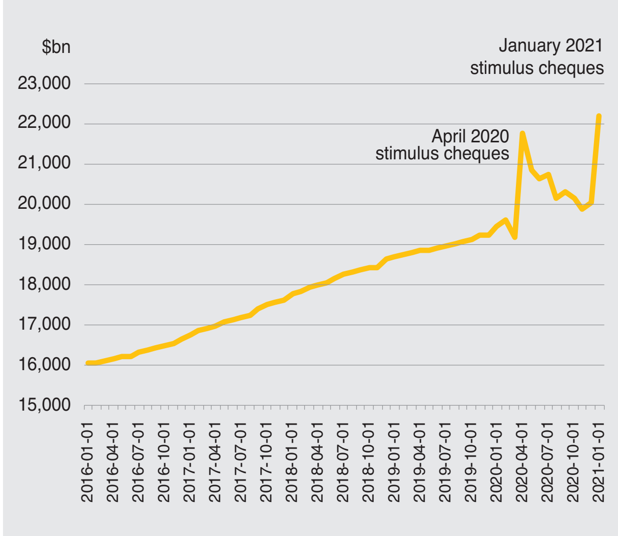
This is not the first time the Irish business model has had to overcome a similar challenge. EU membership meant the gradual end of the 0% rate on manufacturing exports which existed from 1956-1980. The subsequent 10% for manufacturing exporters (introduced in 1980) and the special IFSC regime (introduced in 1987) were also ended by EU rules. Our current 12.5% headline rate was phased in from 1996 to 2003. The core reason we continued to thrive despite these changes was radical and concrete action by business and Government in areas of tax, education, innovation and skills. Whilst the post-COVID debate may increasingly be about the distribution of wealth, Ireland will need to take concrete and significant action to guarantee the continued creation of that wealth in the first instance.

Global Economy

Reopening in the US

The United States has begun to see a reopening of its economy on the back of mass vaccine rollout. In light of this reopening and a substantial stimulus plan under the Biden presidency, the US Federal Reserve is forecasting GDP growth of 10% in the first quarter of the year and 6.5% for 2021 overall, with an anticipated recovery in employment over the coming year. The launch of the $1.9 trillion stimulus plan represents a massive injection of cash into the American economy, including $400 billion of direct income supports to households in the form of stimulus cheques, an earlier round of which saw personal incomes in the US increase by 10% in January. Additional provisions under the stimulus plan are for significant expansions to unemployment benefits, extended child tax credits and increased funding for schools and public health. So far this year, there have been marginal improvements in unemployment, with an additional 379,000 non-farm payroll jobs added in February, concentrated in the leisure and hospitality sectors. Despite this, a jobs recovery of the scale needed to regain ground lost throughout the pandemic has yet to materialise.

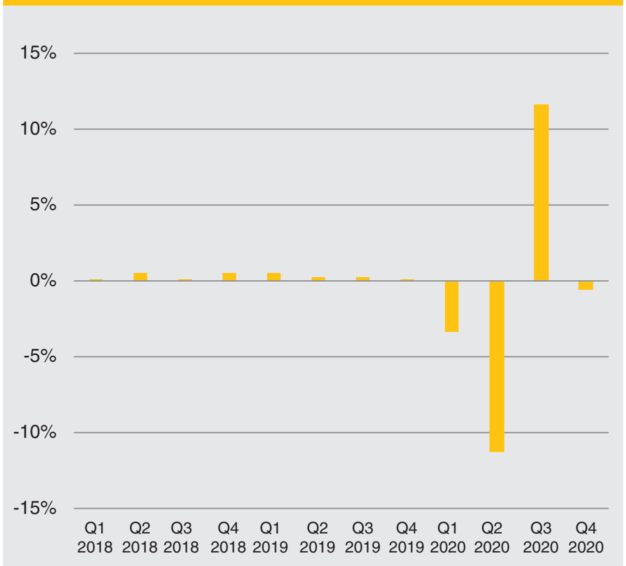
Figure 15: American personal income, seasonally adjusted annual rate ($ billion)



EU economy

Aggregate GDP across the EU fell by 0.5% in the final quarter of 2020 compared to Q3, driven largely by a resurgence in COVID-19 cases and ensuing public health restrictions. For 2020 as a whole, EU GDP shrank by 6.3%. However, the impact on GDP in the eurozone for the fourth quarter was less severe than expected, on the back of robust manufacturing growth and a recovery in global trade. For 2021, the EU Commission's Winter forecasts predict a rebound in EU GDP growth of 3.7%. While concerns around potential inflation in the US have brought discussions of future price increases to the fore, annual eurozone inflation remains low and stable at 0.9% as of February. The ECB is expecting a strong uptick in inflation this year, with a forecasted average increase of 1.5% in 2021. While this would be a quick increase over a relatively short period, it would bring eurozone inflation in line with the ECB's primary objective of price stability, defined as keeping inflation near but below 2% annually.

Figure 16: EU Quarterly growth, % change



Global trade

There was a welcome rebound in global trade in the 2nd half of 2020, driven by strong growth in goods trade in East-Asian economies. A feature of global trade developments is a continuing bifurcation between goods and services trade, with goods trade growing by 8% between Q3 and Q4 of 2020. In comparison, the impact of COVID-19 on trade in services has been more severe and sustained, with services trade seeing a sharper contraction in the first half of the year and posting only marginal quarterly growth in the final quarter of the year. The weak performance of services exports has been driven by falling exports of travel, tourism and the experience economy. While the strong performance in Q4 means that global trade fared better than expected in 2020, the WTO has raised concerns that the rebound has already peaked in the New Year, amid slowing export orders and a dip in container shipping throughout January. As with many economic indicators, whether the momentum of a recovery in global merchandise trade can be sustained into 2021 will be largely determined by the speed and efficacy of vaccine rollout globally.

Figure 17: World merchandise trade exports ($ tn)

Consumption

Credit and Debit card spending
Consumer spending saw a rapid fall-off in late December as COVID-19 restrictions were reintroduced. Total spending across all debit and credit cards fell by 30% between December and January, with about €2.2 billion less spent in January. As is to be expected, most of the reduction was in 'in-person' transactions, down 47% month-on-month. Online spending was less affected, down 3% in January versus December. With the fall in 'in-person' spending, online spending has made up 46% of all card spending in the year so far. In a continuing trend, grocery spending has made up a significant proportion of total card spending, with 26% of card spending in the year so far spent in grocery retail. Reflecting COVID-19 restrictions, accommodation, transport and restaurant spending collectively accounted for just 6% of card spend so far in 2021.

Who is saving?
In a well-flagged trend, household savings continue to accumulate rapidly amid constrained spending opportunities. Irish household deposits increased to €126 billion as of February. While the build-up in household savings is positive news insofar as it provides the opportunity to drive a future recovery in consumption, the high levels of aggregate savings also reflect the diverging fortunes of households in the pandemic. Recent CSO analysis found that median weekly earnings of employees on COVID-19 income supports fell during the pandemic, while median earnings for those not on the payments increased. Lower-income workers are disproportionately impacted by the pandemic in terms of employment and represent a large share of those unemployed and on income supports. Consequently, the increase in savings is likely driven by higher-income households which are simultaneously less impacted in terms of lost income and for whom discretionary spending, which is largely curtailed by the pandemic, makes up a higher proportion of total spending.

Retail sales
Retail sales proved resilient in the final quarter of last year, despite restrictions being in place for much of the quarter. The was helped by a strong performance in December retail sales which were 5% higher in value terms than the previous December and 11% higher in volume terms. In November, 12.4% of all retail sales by Irish businesses were generated by online sales. This fell to 5.8% in December, reflecting the reopening of bricks-and-mortar shops and the reduced time to receive deliveries before Christmas. Retail sales have since declined again amid the January lockdown, with year-on-year retail sales falling by 9.6% in value and 6% in volume terms and the share of retail turnover generated by online sales increasing again to 11%. However, the impact of recent lockdown measures on retail sales has been significantly less than the first lockdown which saw retail sales fall by a fifth at their lowest point. This implies that both consumers and Irish businesses are adapting to the measures as far as possible.

Figure 18: Total new card spend by sector, Jan 1st - Mar 8th (€ billion)

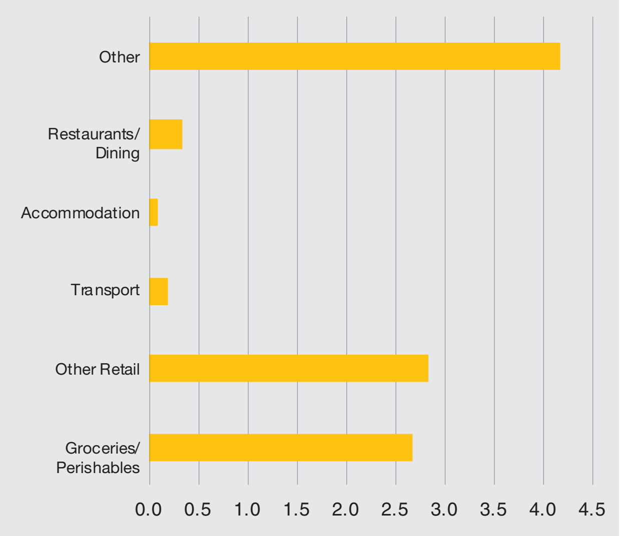


Figure 19: % of household spend on food, utilities, housing and non-durable household items by gross income decile

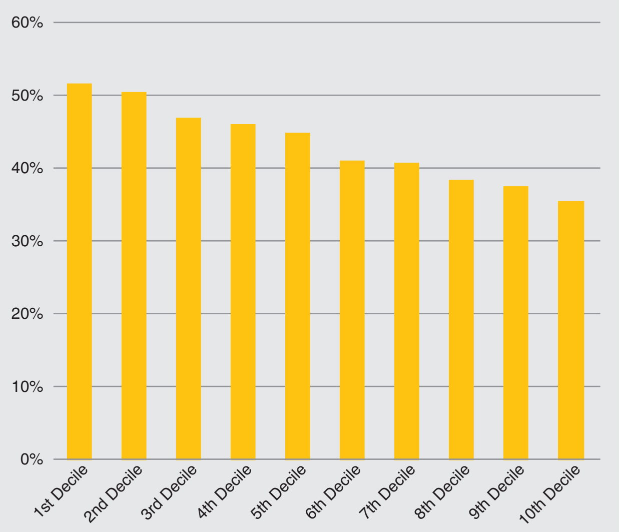
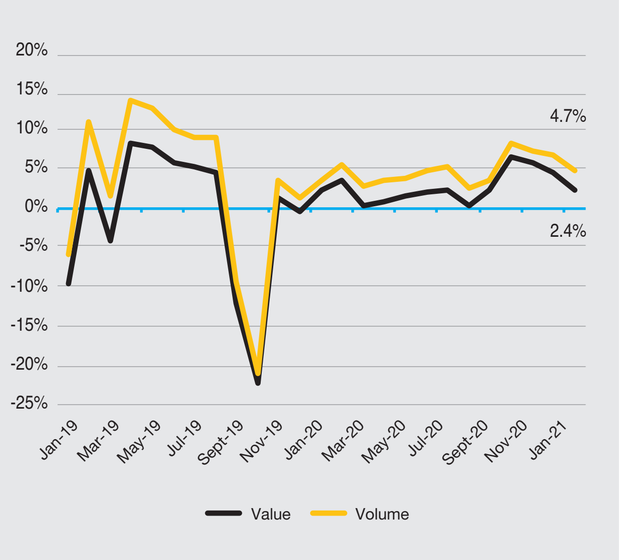


Figure 20: Retail sales index, Y-o-Y % change



Housing and construction

Housing completions

The final quarter of the year saw a big uptick in new dwelling completions, regaining some of the ground that was lost following a significant drop off in Q2 and Q3. Q4 completions were up 15.9% over the same period in 2019, with a record proportion of apartments making up 23% of all completed housing units. In total, 20,676 housing units were completed across apartments, single and scheme houses. Despite the strong increase in Q4, total completions for the year were still 2% lower than in 2019 and were significantly below estimated levels needed to meet demand and ease the housing crisis. Given that much of the construction sector has now been closed over the first quarter of 2021, housing completions for this quarter will likely be significantly below the levels seen this time last year. 54% of all completions for the year were based in the Dublin or Mid-east region with only about 17% of new dwellings based in rural areas.

Planning permissions

Looking to the future, 8,315 units of new one-off and multi-development houses received planning permission over 2020, down 7% compared to 2019. As a counterpoint, there has been a significant jump in the number of planning permissions granted for apartments, with 26,224 apartment units receiving planning permission in 2020. The increase means that apartment units now make up 56% of all units receiving planning permission. When house and apartment permissions are considered together, total units receiving planning permission increased by 34% over 2019. In total, 8,731 permissions were also granted for extensions or renovations to dwellings over 2020, of which about one-fifth were for dwellings in Dublin. This coincides with a sustained increase in sales of hardware and DIY goods, which were persistently high throughout the second half of 2020. At their peak in Q4, retails sales of hardware and DIY goods were 24% higher than the same period in 2019.

Building and Construction

After a difficult Q2 and Q3, the building and construction index showed a quarter-on-quarter growth rate of 13.7% in Q4 2020. This means that total construction activity had recovered to just above its pre-pandemic level by the end of the year, up by 2.7% annually in volume terms. Residential and commercial construction have seen different paces of recovery, with non-residential building showing stronger growth. The non-residential sector saw annual growth of 6.5% in both value and volume terms in Q4 despite a challenging year for the sector. This is on the back of an extremely strong recovery in Q3, with more moderate growth sustained through the final quarter of the year. Although residential building activity also saw growth in the second half of the year, it was not enough to compensate for the disruption of the first lockdown, with both value and volume of residential construction down by 18.4% annually. Lockdown restrictions in Q2 of 2020, when much of the construction sector was closed, led to a rapid fall-off in building activity. This is likely to be the case again when the final figures for Q1 2021 are available.

Figure 21: New Dwelling completions by type

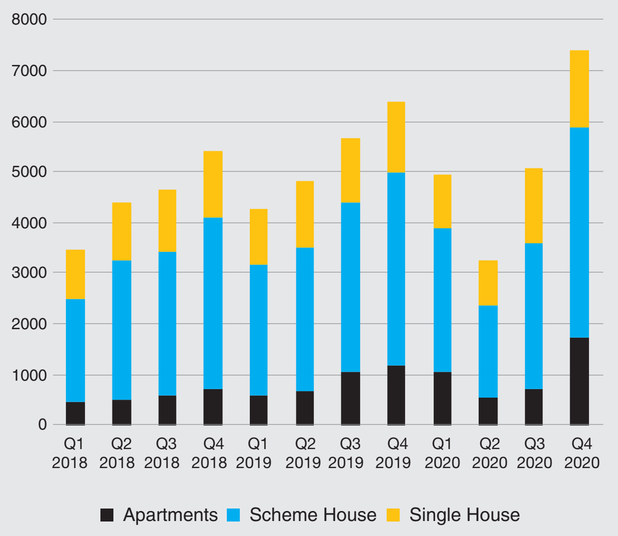


Chart 22: Permissions granted for new dwellings

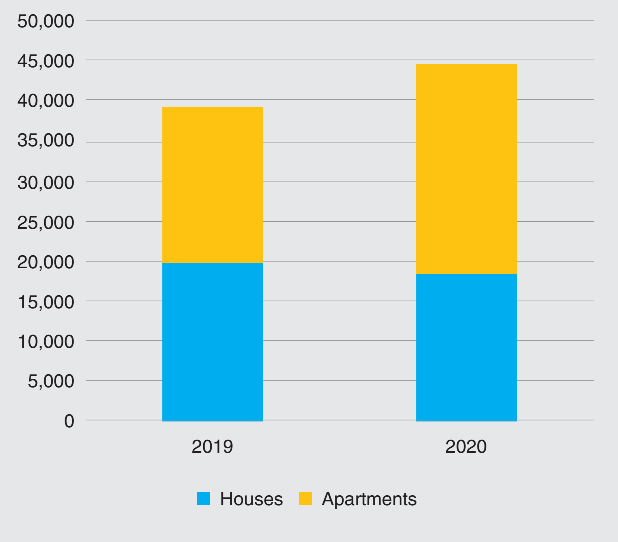
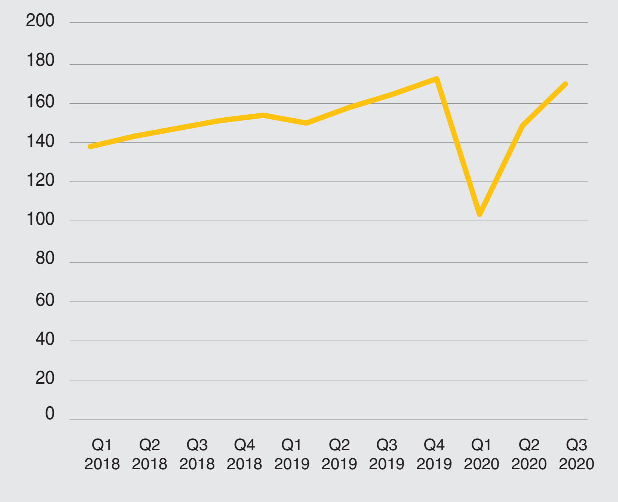


Figure 23: Production in building and construction index



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